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Business

Experts preach common-sense approach for small businesses in stormy economy

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They're not holding billions of dollars worth of mortgage-backed securities, and the fate of the financial world doesn't ride on their individual successes or failures, but small area businesses are feeling the same economic pressures that have roiled Wall Street this year.

More than anything, business owners and experts say the market situation is marked by uncertainty. Until the federal government's moves to stabilize the country's largest insurer and investment banks take effect on Wall Street, it's hard to say how they will affect Main Street.

"Unfortunately, there's no bailout for small businesses, and the issue for the economy is a tough one," said Ellen Valentino, the state director for the National Federation of Independent Business. "But they do generally what every common-sense family does when times get hard."

Many firms are tightening their belts, shedding inventory and putting off expansions. Some are laying off workers, though the state's unemployment rate remains well below the national average. The key in times of uncertainty, many say, is to play it safe.

Though it's unlikely that the typical small business has investments that are as risky as the immensely complicated holdings that brought down several major firms, Seth Hammer, a Towson-based CPA, said companies should still be checking to make sure they're in good shape.

Specifically, Hammer said it's worth calling about any money-market investments to make sure that they're properly insured and safe. Many banks offer money-market funds, which are generally more liquid than certificates of deposit but offer better rates than typical bank accounts.

The federal government stepped in this week to protect money-market funds amid fears that some funds may not be able to return their clients' principal. Money-market funds are different from money-market bank accounts, which are insured by the Federal Deposit Insurance Corp.

Hammer said companies should also be aware of the status of any insurance companies that cover them.

"Even if the insurance company has a high rating, that does not necessarily mean that you are in the clear, because we all saw what happened with AIG," Hammer said, referring to the near collapse and government rescue of American International Group Inc. last week.

Shelley Lombardo, senior manager at the State Employees Credit Union of Maryland, said money-



Photo Credit: Michael Dillon owns Dillon Tax Consulting in Annapolis.

market accounts may become more important as companies look for conservative ways to use their money. The area firms she works with have been more cautious and deliberate in their planning, she said.

"They're definitely watching and modifying their business plans," she said, "and those that haven't done so in the past are really looking at them now."

Some of this has to do with the availability of credit, and some of it has to do with the uncertain direction of the national economy. Still, Lombardo said many firms are feeling a more basic squeeze that comes from the price of fuel and energy.

Lombardo said such pressures have led a number of firms to start looking for different uses for their cash. Whereas before, businesses with free capital would use it to expand or buy new equipment, now they're putting it away.

She said money-market accounts are generally good places to park cash because they are liquid. At SECU, interest rates on money-market accounts range between 2.5 percent and 3 percent, said Lombardo.

She said many businesses are still looking for credit when they can find it.

"I have not seen anyone not looking to grow," said Lombardo.

Governments are having trouble as well. In Maryland, the state is facing a \$432 million shortfall this fiscal year and nearly \$1 billion in 2010. Most states are feeling similar crunches as personal income and consumer spending decline.

Pierce Flanigan, president of P. Flanigan & Sons Inc. in Baltimore, said his infrastructure construction business is down by about 20 percent because of a combination of factors. Governments are spending less and material costs are up, so the dollars that are spent don't go as far.

"They have less tax income coming in, so they cut back on their programs," he said. "So we cut back on our employment."

Business has slowed to the point where Flanigan said he had to lay off 75 workers, bringing his total work force to 230. Flanigan said he has also slowed production at the company's asphalt and concrete plants around the area.

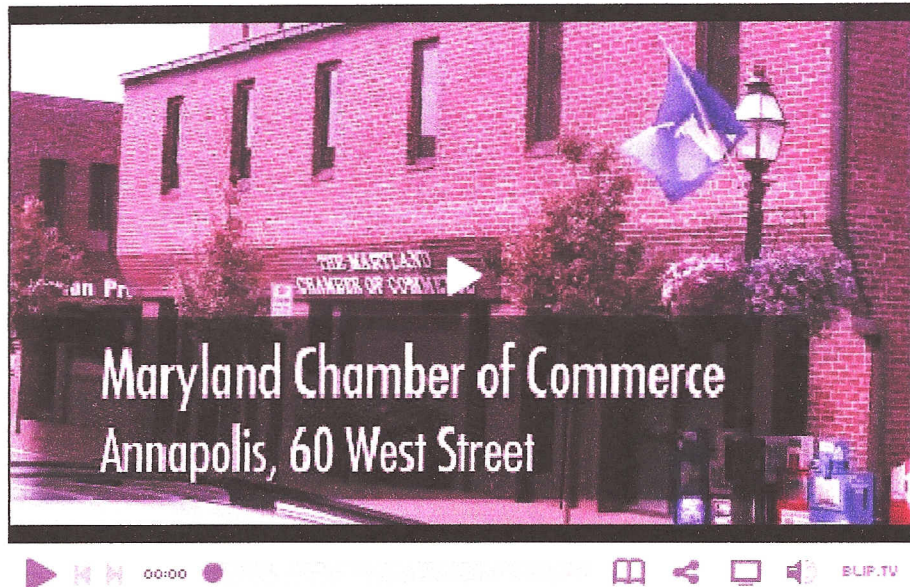
He said the company's winning bids on public projects have been lower than normal this year, because there is less demand for construction services.

When businesses don't spend, that affects other companies that provide goods and services. Diane Devaney, president of the advertising and marketing company Devaney & Associates, said business has slowed, though companies are still spending.

She said companies are devoting more resources to online marketing, which allows them to reach more people with less production cost.

"Our retail clients are really where we've seen some hit," said Devaney.

Kathleen T. Snyder, president and CEO of the Maryland Chamber of Commerce, said the availability of credit is affecting businesses, but it's also taking a toll on what consumers are able to spend.



"There is some general concern about the availability of credit, so individuals and consumers that have good credit can still get credit, but it makes it more difficult for people who are just starting their credit history," she said.

Snyder said when businesses can't get credit, it takes a more pronounced toll on smaller firms.

"Small businesses generally tend to be undercapitalized any time, so that's part of the very real concern that exists in this country," she said.

State unemployment statistics show that more Maryland workers are without jobs than in 2007, but the state's 4.5 percent rate from August trails the national average of 6.1 percent and has risen more slowly. The state's August unemployment rate from 2007 was 3.7 percent, compared to a national average at that time of 4.7 percent.

Andrew Moser, assistant secretary for work force development at the Department of Labor, Licensing and Regulation, said Maryland has been stabilized by public jobs surrounding Washington, D.C. and the state's military installations, but employers have not been as aggressive as in the past.

"It tells me that employers in this region are being cautious about hiring," Moser said.

He said the state remains below its 5 percent measure of "full employment," which would indicate that there are still workers available to help companies that want to expand in the state.

To make up for declines in revenue, governments are being more aggressive in their tax collections, said Michael Dillon, who owns Dillon Tax Consulting in Annapolis. He said firms that have dealings in several states should be especially careful.

"The states are suffering as well, and the main way that states are going to try to raise revenue is to find more out-of-state taxpayers," he said.

For Dillon, an attorney who started his company in April, business has been good. Prior to opening the business, he worked for another tax consulting firm, and said business activity has quickened this year.

"I never want to see it grow at the expense of my clients or any individual," he said. Dillon added that many times his company's first interaction with a customer involves a crisis. He said companies would do better to check their tax liability before the collectors come calling.

The Daily Record asked three local financial advisors about investing in the market. Go [here](#) to read advice from: Ben Proctor, of Smith Barney; Daniel Root, of Williams Asset Management; and Dena Shapiro Frenkel, of Ameriprise Financial Services.

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